Bing

A **balloon mortgage** is a type of real estate loan with an initial period of low or no monthly payments. Here's how it works:

1. **Initial Period**:
   - During the initial phase, borrowers make low or no monthly payments.
   - These payments may be **interest-only**, meaning they cover only the interest portion of the loan.
   - The interest rate during this period is typically low.
2. **Large Final Payment**:
   - At the end of the loan term (usually shorter than a traditional mortgage, such as five or ten years), borrowers face a significant final payment.
   - This final payment is called a **balloon payment** because of its large size.
   - It often exceeds the total of all previous payments combined.
3. **Balloon Mortgage Features**:
   - **Shorter Term**: Balloon mortgages have shorter terms compared to standard mortgages.
   - **Risk and Strategy**: Borrowers may plan to refinance, sell the home, or use other means to cover the balloon payment.
   - **Non-Standard Amortization**: The payment structure is called "non-standard amortization" because it doesn't fully amortize the loan over the term.
4. **Calculating Balloon Payments**:
   - Lenders calculate the low, fixed-rate payments based on a longer term (e.g., 30 years) even though the actual loan term is shorter.
   - The outstanding balance left at the end of the term becomes the balloon payment amount.

Remember, while balloon mortgages offer low initial payments, borrowers must be prepared for the substantial final payment. It's essential to have a plan in place to manage this significant financial obligation. □□

For more details, you can explore LendingTree's article on balloon mortgages [1].

Source(s)

1. Balloon Mortgage: What It Is and How It Works | LendingTree
2. Balloon payment mortgage - Wikipedia

3. Balloon Mortgage: Definition, Examples, Pros & Cons - Investopedia